USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 5/14/2009
GAIN Report Number: AS9020

Australia

DAIRY AND PRODUCTS SEMI-ANNUAL

SEMI-ANNUAL

Approved By:
Grant Pettrie, Agricultural Counselor

Prepared By:
Mike Darby, Agricultural Specialist

Report Highlights:
Improved fluid milk supply combined with a lower Australian dollar value will likely see production and exports of butter and milk powders increase in 2008/09 while lower world prices will likely see cheese production and exports decline.

Executive Summary:

Eastern Australia, where the majority of the Australian dairy industry is located, continues to suffer drier than average conditions and irrigation water supplies continue to remain at historically low levels. Despite recent rainfall, climatic conditions continue to be drier than average in south east Australia. Supplies of irrigation water also remain at historically low levels and require substantial rainfall before significant improvement can be expected. The dairy industry remains the largest user of irrigation water in Australia and so continues to be sensitive to changes in climate and climate policy.

Steep declines in world prices for key dairy commodities have precipitated a decrease in farm gate prices for fluid milk in Australia during 2008/09. According to a recent ABARE report world prices for cheese, butter and milk powders have fallen by around half in 2008/09, following record highs in 2007/08. Declining input prices have provided some relief from declining milk prices and continuing dry conditions. Also, on the positive side, prices paid for fodder (hay and grain) have declined significantly as has the price of fuel in 2008/09. Prices paid for irrigation water have also declined from record levels, although remaining at historically high levels.

A substantial increase in the value of the Australian dollar in 2007/08, combined with a decrease in milk supply slashed dairy exports for 2007/08. However, increased milk supply and a lower Australian dollar value will likely see dairy exports improve in 2008/09.

Beyond the current forecast year, current ABARE forecasts fluid milk production increasing between one and two percent for 2009/10 and to continue rising at this rate out to 2013/14. Post advises that, should this projection be realized, production will likely remain at levels below those experienced prior to the drought. This increase is expected to be driven by an increase in cow numbers (which fell sharply in 2007/08). ABARE does not expect cow yield to improve in 2009/10.

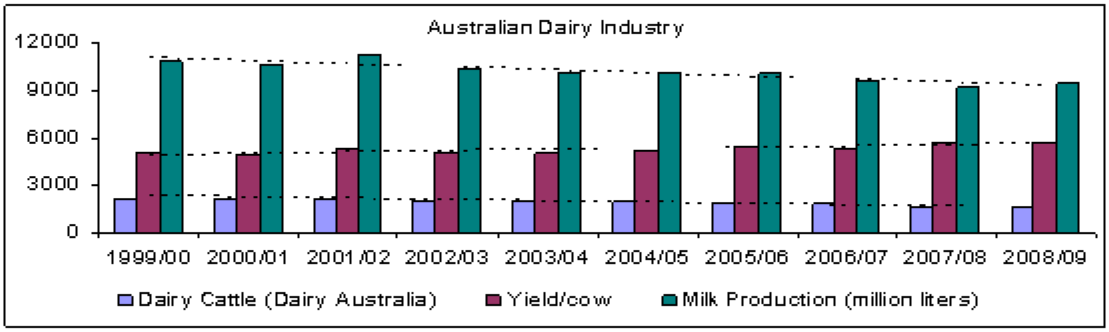
Commodities:
Dairy, Milk, Fluid
Dairy, Cheese
Dairy, Butter
Dairy, Dry Whole Milk Powder
Dairy, Milk, Nonfat Dry

Production:
Fluid Milk

Fluid milk production for 2008/09 is forecast at 9.79 MMT, up around three percent on the revised estimate for the previous year. Improved availability of fodder and above average rainfall for the months of November and December combined to lift 2008/09 production.

Post has revised estimated fluid milk production for 2007/08 downwards significantly to 9.50 MMT, or around 9.2 billion liters using a conversion factor of 1.03. This decrease is in line with full-year industry figures showing that drought conditions constrained fluid milk production beyond previous expectations.

Generally, fluid milk production has been declining since reaching record levels in 2001/02. Long running and severe drought which began in 2002/03 has seen cattle numbers and producer numbers decline. Yield per cow however has continued to improve steadily.



Source: ABARE data (July-June)

ABARE's long term projections have fluid milk increasing steadily out to 20013/14, reaching approximately 10.89 MMT or 10.57 billion liters. Despite this increase, this projection remains below the record level of 11.6 MMT or 11.27 billion liters achieved in 2001/02.

Cheese

Total cheese production for 2008/09 is forecast at 335 TMT, down three percent from the previous year despite a forecast increase in the supply of fluid milk. This forecast decline is in line with industry partial-year data (July-February) which shows production down by 3.2 percent compared with the same period for previous year.

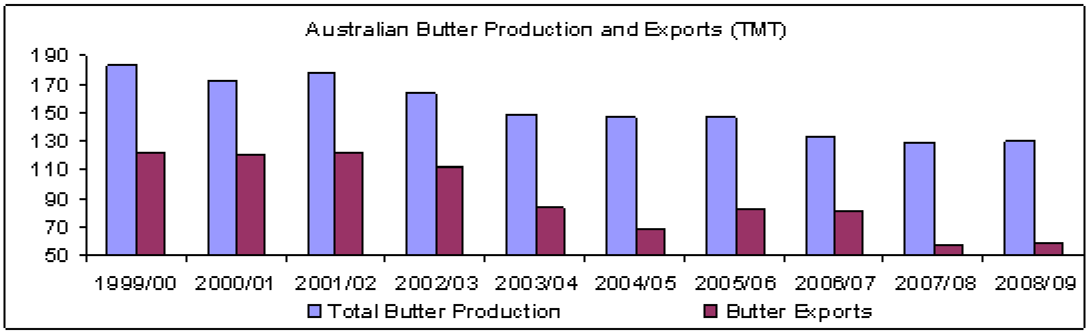
Exports of cheese for 2008/09 are forecast at 177 TMT, down 12 percent on the revised estimate for the previous year. Industry year-to-date data (July-February) shows exports of some cheeses down by nearly half. This decline in production is supported by ABARE figures showing cheese has experienced the largest price falls of all dairy commodities.

Post has revised its cheese production and export estimates for 2007/08 downwards in line with industry figures.

Butter

Total butter production for 2008/09 is forecast at 118 TMT, up six percent on the revised estimate for the previous year. Industry data shows partial-year production (July-February) up sharply, however monthly figures show butter production trending downwards in recent months. Butter oil production is also trending higher over the same partial-year period.

Post's forecast of 118 TMT for butter production in 2008/09 remains well below levels achieved in recent years but in line with the long-term trend of declining production driven by changing long-term consumption patterns. ABARE's long term projections have butter production increasing at modest levels out to 2013/14.



Source: ABARE data (July-June)

Total exports of butter for 2008/09 are forecast at 70 TMT, up on the revised estimate for 2007/08. Partial year data (July-February) for butter exports is showing a modest increase while butter oil, which is a minor component of exports, is showing a decline. Post forecasts an overall increase in exports for 2008/09.

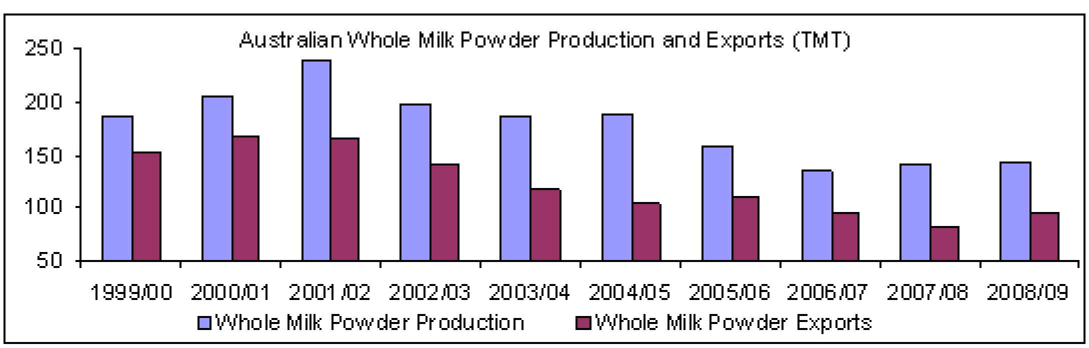
Post has revised exports for 2007/08 downwards significantly to 54 TMT. A higher Australian dollar and lower- than-anticipated production constrained exports below previous expectations.

Whole Milk Powder

Total whole milk powder production (WMP) for 2008/09 is forecast at 145 TMT, up only slightly on the revised estimate of the prior year. Industry data shows WMP production declining slightly on a partial year (July-February) basis, however monthly production figures show strong increases in production in more recent months. Post expects full-year production for 2008/09 to increase slightly over the previous year.

Historical data shows WMP production decreasing on a long-term basis and "leveling out" in more recent years. ABARE's long term projections have whole milk powder production increasing at modest levels out to 2013/14.

Total exports of WMP are forecast to increase to 150 TMT in 2008/09. Prior low levels of exports combined with comparatively high production levels in 2007/08 created higher carry-in stocks for 2008/09. This situation combined with the lower Australian dollar is expected to see exports increase at the expense of stocks in 2008/09.



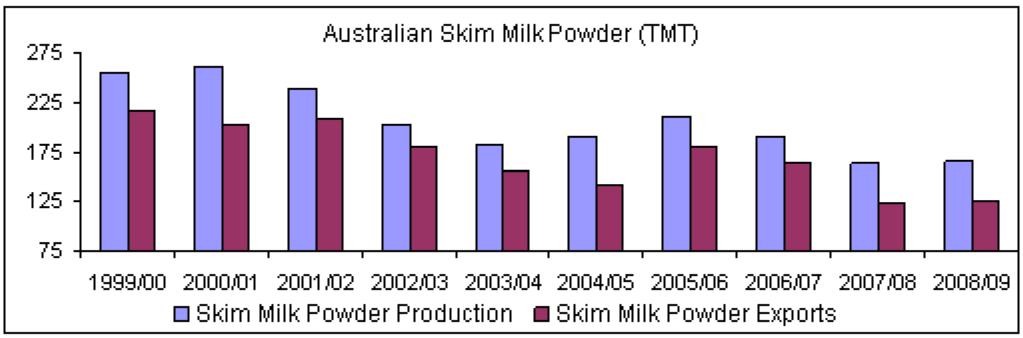
Source: ABARE data (July-June)

Skim Milk Powder

Total skim milk powder (SMP) production for 2008/09 is forecast at 200 TMT, up 12 percent on the revised figure for the previous year. Industry partial-year data (July-February) shows a sharp increase in production with a particularly large increase in production in more recent months. Buttermilk powder (BMP), which post includes in SMP figures, has also experienced a sharp increase in production.

Post has revised production of SMP downwards significantly for 2007/08. A stronger dollar and poorer export demand in 2007/08 combined to constrain production to levels lower than previously anticipated.

Exports of SMP for 2008/09 are forecast at 170 TMT, up sharply on the revised estimate for the previous year. Devaluation of the Australian dollar in the first half of 2008/09 has greatly increased the competitiveness of Australia's SMP exports. Despite this forecast increase, this level of exports is considered roughly equal to the ten-year-average.



Source: ABARE data (July-June)

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid - Australia									
1,000 Head & 1,000 MT	2006			2007			2008		
	Market Year Begin: Jul 2006			Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		
	USDA Post	Official Estimate	Post Estimate New	USDA Post	Official Estimate	Post Estimate New	USDA Post	Official Estimate	Post Estimate New
Cows In Milk	1,870	1,870	1,870	1,800	0	1,800	1,730	1,730	1,730
Cows Milk Production	10,395	10,395	10,395	9,870	0	9,500	9,500	9,500	9,785
Other Milk Production	0	0	0	0	0	0	0	0	0
Total Production	10,395	10,395	10,395	9,870	0	9,500	9,500	9,500	9,785
Other Imports	3	3	3	2	0	6	6	6	7
Total Imports	3	3	3	2	0	6	6	6	7
Total Supply	10,398	10,398	10,398	9,872	0	9,506	9,506	9,506	9,792
Other Exports	86	86	86	82	0	82	69	69	69
Total Exports	86	86	86	82	0	82	69	69	69
Fluid Use Dom. Consum.	2,127	2,127	2,127	2,162	0	2,271	2,205	2,205	2,316
Factory Use Consum.	8,185	8,185	8,185	7,628	0	7,153	7,232	7,232	7,407
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	10,312	10,312	10,312	9,790	0	9,424	9,437	9,437	9,723
Total Distribution	10,398	10,398	10,398	9,872	0	9,506	9,506	9,506	9,792
CY Imp. from	0	0	0	0	0	0	0	0	0

U.S.									
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Cheese - Australia									
1,000 MT	2006			2007			2008		
	Market Year Begin: Jul 2006			Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		
	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	New Post Estimate
Beginning Stocks	25	25	25	21	21	21	18	18	17
Production	362	362	362	360	360	345	344	344	335
Other Imports	61	61	61	64	64	68	70	70	55
Total Imports	61	61	61	64	64	68	70	70	55
Total Supply	448	448	448	445	445	434	432	432	407
Other Exports	202	202	202	212	212	202	202	202	177
Total Exports	202	202	202	212	212	202	202	202	177
Human Dom. Consumption	225	225	225	215	215	215	215	215	215
Other Use, Losses	0	0		0	0	0	0	0	0
Total Dom. Consumption	225	225	225	215	215	215	215	215	215
Total Use	427	427	427	427	427	417	417	417	392
Ending Stocks	21	21	21	18	18	17	15	15	15
Total Distribution	448	448	448	445	445	434	432	432	407
CY Imp. from U.S.	0	0	0	0	0	0	7	7	6
CY. Exp. to U.S.	12	12	12	14	14	14	9	9	9

Dairy, Butter - Australia									
1,000 MT	2006			2007			2008		
	Market Year Begin: Jul 2006			Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	New Post Estimate	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	14	14	14	9	9	9	4	4	22
Production	129	129	129	117	117	111	111	111	118
Other Imports	10	10	10	13	13	20	20	20	15
Total Imports	10	10	10	13	13	20	20	20	15
Total Supply	153	153	153	139	139	140	135	135	155
Other Exports	82	82	82	80	80	54	59	59	70
Total Exports	82	82	82	80	80	54	59	59	70
Domestic Consumption	62	62	62	55	55	64	62	62	64
Total Use	144	144	144	135	135	118	121	121	134
Ending Stocks	9	9	9	4	4	22	14	14	21
Total Distribution	153	153	153	139	139	140	135	135	155
CY Imp. from U.S.	0	0	0	0	0	0	2	2	2
CY. Exp. to U.S.	2	2	2	5	5	5	3	3	3

Dairy, Dry Whole Milk Powder - Australia									
1,000 MT	2006			2007			2008		
	Market Year Begin: Jul 2006			Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Beginning Stocks	49	49	49	34	34	34	23	23	51
Production	152	152	152	135	135	142	125	125	145
Other Imports	13	13	13	11	11	13	13	13	10
Total Imports	13	13	13	11	11	13	13	13	10
Total Supply	214	214	214	180	180	189	161	161	206
Other Exports	153	153	153	130	130	111	111	111	150
Total Exports	153	153	153	130	130	111	111	111	150
Human Dom. Consumption	27	27	27	27	27	27	29	29	29
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	27	27	27	27	27	27	29	29	29
Total Use	180	180	180	157	157	138	140	140	179
Ending Stocks	34	34	34	23	23	51	21	21	27
Total Distribution	214	214	214	180	180	189	161	161	206
CY Imp. from U.S.	0	0	0	1	1	1	1	1	1
CY. Exp. to U.S.	0	0	0	5	5	2	3	3	3

Dairy, Milk , Nonfat Dry - Australia									
1,000 MT	2006			2007			2008		
	Market Year Begin: Jul 2006			Market Year Begin: Jul 2007			Market Year Begin: Jul 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	New Post Estimate
Beginning Stocks	39	39	39	38	38	38	30	30	46
Production	221	221	221	205	205	177	177	177	200
Other Imports	5	5	5	4	4	4	3	3	3
Total Imports	5	5	5	4	4	4	3	3	3
Total Supply	265	265	265	247	247	219	210	210	249
Other Exports	189	189	189	175	175	128	120	120	170
Total Exports	189	189	189	175	175	128	120	120	170
Human Dom. Consumption	38	38	38	42	42	45	45	45	45
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	38	38	38	42	42	45	45	45	45
Total Use	227	227	227	217	217	173	165	165	215
Ending Stocks	38	38	38	30	30	46	45	45	34
Total Distribution	265	265	265	247	247	219	210	210	249
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Author Defined:

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Report Number	Title of Report	Date
AS9018	Cotton Annual	04/28/09

AS9016	Sugar Annual	04/02/09
AS9015	Grain and Feed Annual 2009	03/20/09
AS9014	Stone Fruit Annual 2009	03/13/09
AS9012	Agricultural Economy and Policy Report	03/12/09
AS9010	Livestock Semi-Annual	03/06/09
AS9009	Government Announces A$32m Research into Soil Carbon & Emissions	03/06/09